

Auditing Procedures Report

Issued under P.A. 2 of 1968, as amended and P.A. 71 of 1919, as amended.

Local Unit of Government Type <input type="checkbox"/> County <input type="checkbox"/> City <input checked="" type="checkbox"/> Twp <input type="checkbox"/> Village <input type="checkbox"/> Other		Local Unit Name Lincoln Township	County Osceola
Fiscal Year End March 31, 2006	Opinion Date May 17, 2006	Date Audit Report Submitted to State July 3, 2006	

We affirm that:

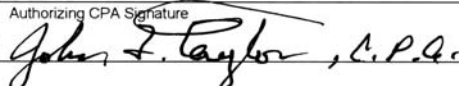
We are certified public accountants licensed to practice in Michigan.

We further affirm the following material, "no" responses have been disclosed in the financial statements, including the notes, or in the Management Letter (report of comments and recommendations).

- YES NO **Check each applicable box below.** (See instructions for further detail.)
- ☒ ☐ All required component units/funds/agencies of the local unit are included in the financial statements and/or disclosed in the reporting entity notes to the financial statements as necessary.
 - ☒ ☐ There are no accumulated deficits in one or more of this unit's unreserved fund balances/unrestricted net assets (P.A. 275 of 1980) or the local unit has not exceeded its budget for expenditures.
 - ☒ ☐ The local unit is in compliance with the Uniform Chart of Accounts issued by the Department of Treasury.
 - ☐ ☒ The local unit has adopted a budget for all required funds.
 - ☒ ☐ A public hearing on the budget was held in accordance with State statute.
 - ☒ ☐ The local unit has not violated the Municipal Finance Act, an order issued under the Emergency Municipal Loan Act, or other guidance as issued by the Local Audit and Finance Division.
 - ☒ ☐ The local unit has not been delinquent in distributing tax revenues that were collected for another taxing unit.
 - ☒ ☐ The local unit only holds deposits/investments that comply with statutory requirements.
 - ☒ ☐ The local unit has no illegal or unauthorized expenditures that came to our attention as defined in the *Bulletin for Audits of Local Units of Government in Michigan*, as revised (see Appendix H of Bulletin).
 - ☒ ☐ There are no indications of defalcation, fraud or embezzlement, which came to our attention during the course of our audit that have not been previously communicated to the Local Audit and Finance Division (LAFD). If there is such activity that has not been communicated, please submit a separate report under separate cover.
 - ☐ ☒ The local unit is free of repeated comments from previous years.
 - ☒ ☐ The audit opinion is UNQUALIFIED.
 - ☒ ☐ The local unit has complied with GASB 34 or GASB 34 as modified by MCGAA Statement #7 and other generally accepted accounting principles (GAAP).
 - ☒ ☐ The board or council approves all invoices prior to payment as required by charter or statute.
 - ☒ ☐ To our knowledge, bank reconciliations that were reviewed were performed timely.

If a local unit of government (authorities and commissions included) is operating within the boundaries of the audited entity and is not included in this or any other audit report, nor do they obtain a stand-alone audit, please enclose the name(s), address(es), and a description(s) of the authority and/or commission.

I, the undersigned, certify that this statement is complete and accurate in all respects.

We have enclosed the following:	Enclosed	Not Required (enter a brief justification)	
Financial Statements	<input checked="" type="checkbox"/>		
The letter of Comments and Recommendations	<input checked="" type="checkbox"/>		
Other (Describe)	<input type="checkbox"/>		
Certified Public Accountant (Firm Name) Baird, Cotter and Bishop, P.C.		Telephone Number 231-775-9789	
Street Address 134 W. Harris Street		City Cadillac	State Zip MI 49601
Authorizing CPA Signature 		Printed Name John F. Taylor, C.P.A.	License Number 1101008199

LINCOLN TOWNSHIP, OSCEOLA COUNTY

REED CITY, MICHIGAN

MARCH 31, 2006

LINCOLN TOWNSHIP, OSCEOLA COUNTY
REED CITY, MICHIGAN

MARCH 31, 2006

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Baird, Cotter and Bishop, P.C.

CERTIFIED PUBLIC ACCOUNTANTS

May 17, 2006

INDEPENDENT AUDITORS' REPORT

To the Township Board
Lincoln Township
Osceola County
Reed City, Michigan

We have audited the accompanying basic financial statements of the governmental activities and each major fund of Lincoln Township, Osceola County, Reed City, Michigan as of and for the year ended March 31, 2006, which collectively comprise the Township's basic financial statements as listed in the table of contents. These basic financial statements are the responsibility of the Township's management. Our responsibility is to express an opinion on these basic financial statements based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

In our opinion, the basic financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities and each major fund of Lincoln Township, Osceola County, Reed City, Michigan as of March 31, 2006, and the respective changes in financial position for the year then ended in conformity with accounting principles generally accepted in the United States of America.

As described in Note I, the Township has implemented a new financial reporting model as required by the Governmental Accounting Standards Board (GASB) Statement No. 34, *Basic Financial Statements – and Management's Discussion and Analysis – for State and Local Governments* as of April 1, 2004.

The management's discussion and analysis on pages iii through viii and budgetary comparison information on page 17 are not a required part of the basic financial statements but are supplementary information required by accounting principles generally accepted in the United States of America. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the supplementary information. However, we did not audit the information and express no opinion on it.

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise Lincoln Township, Osceola County, Reed City, Michigan's basic financial statements. The individual fund financial statements, and other supplementary information are not a required part of the basic financial statements. Such information has been subjected to the auditing procedures applied in the audit of the basic financial statements and, in our opinion, is fairly stated in all material respects in relation to the basic financial statements taken as a whole.

BAIRD, COTTER AND BISHOP, P.C.

Baird, Cotter & Bishop, P.C.

LINCOLN TOWNSHIP, OSCEOLA COUNTY
REED CITY, MICHIGAN

MANAGEMENT'S DISCUSSION AND ANALYSIS

FOR FISCAL YEAR ENDED MARCH 31, 2006

Lincoln Township, a general law township located in Osceola County has implemented the provisions of Governmental Accounting Standards Board Statement 34 (GASB 34). The Management's Discussion and Analysis, a requirement of GASB 34, is intended to be the Lincoln Township board's discussion and analysis of the financial results for the fiscal year ended March 31, 2006.

Financial Highlights

- ◆ The assets of the Township exceeded its liabilities at the close of the fiscal year by \$690,727. Of this amount, \$406,037 may be used to meet the township's ongoing obligations to citizens and creditors.
- ◆ As of the close of the current fiscal year, the Township's governmental funds reported combined ending fund balances of \$406,037. About 68.52% is available for spending at the Township's discretion.
- ◆ The Township is not obligated under any long-term debt as of March 31, 2006.

Overview of the Financial Statements

This discussion and analysis is intended to serve as an introduction to the Township's basic financial statements. The Township's basic financial statements are comprised of three components. 1) government-wide financial statements, 2) fund financial statements and 3) notes to the financial statements. This report also contains other supplementary information in addition to the basic financial statements themselves.

Government-Wide Financial Statements The government-wide financial statements, required by GASB 34, are new and being shown for the first time in 2006 for Lincoln Township. The *government-wide financial statements* are designed to provide readers with a broad overview of the Township's finances, in a manner similar to a private-sector business. These statements are calculated using full accrual accounting and more closely represent those presented by business and industry. The entire Township's assets and liabilities, both short and long-term, are reported. As such, these statements include capital assets, net of related depreciation.

The *Statement of Net Assets* presents information on all of the Township's assets and liabilities, with the difference between the two reported as net assets. Over time, increases or decreases in net assets may serve as a useful indicator of whether the financial position of the Township is improving or deteriorating.

The *Statement of Activities* presents information showing how the Township's net assets changed during the fiscal year. All changes in net assets are reported when the underlying event giving rise to the change occurs, regardless of the timing of related cash flows. Thus, revenues and expenses are reported in this statement for some items that will only result in cash flows in future fiscal periods.

LINCOLN TOWNSHIP, OSCEOLA COUNTY
REED CITY, MICHIGAN

MANAGEMENT'S DISCUSSION AND ANALYSIS

FOR FISCAL YEAR ENDED MARCH 31, 2006

Both of the government-wide financial statements distinguish functions of the Township's that are principally supported by taxes and intergovernmental revenues (governmental activities) from functions that are intended to recover all or a significant portion of their costs through user fees and charges (business-type activities). The Township has no business-type activities.

Fund Financial Statements

The fund level statements are reported on a modified accrual basis in that only those assets that are "measurable" and "currently available" are reported. Liabilities are recognized to the extent they are normally expected to be paid with current financial resources.

Governmental Funds – Governmental funds are used to account for essentially the same functions reported as governmental activities in the government-wide financial statements. However, unlike the government-wide financial statements, governmental fund financial statements focus on current sources and uses of spendable resources, as well as on balances of spendable resources available at the end of the fiscal year. Such information may be useful in evaluating a government's near-term financing requirements.

Because the focus of governmental funds is narrower than that of the government-wide financial statement, it is useful to compare the information presented for governmental funds with similar information presented for governmental activities in the government-wide financial statements. By doing so, readers may better understand the long-term impact of the government's near-term financing decisions. Both the governmental funds balance sheet and the governmental fund statements of revenues, expenditures, and changes in fund balances provide a reconciliation to facilitate this comparison between governmental funds and governmental activities.

Proprietary Funds – Proprietary funds are used to report the same functions presented as business-type activities in the government-wide financial statements. The Township does not maintain any proprietary funds.

Notes to the Financial Statements

The notes provide additional information that is essential to a full understanding of the data provided in the government-wide and fund financial statements.

Other Information

In addition to the basic financial statements, this report further presents Required Supplementary Information (RSI) that explains and supports the information presented in the financial statements.

Government-Wide Financial Analysis

The Statement of Net Assets is the first statement in the Government-Wide Financial Statements section of this document. This statement is useful for providing an indicator of the Township's financial position over

LINCOLN TOWNSHIP, OSCEOLA COUNTY
REED CITY, MICHIGAN

MANAGEMENT'S DISCUSSION AND ANALYSIS

FOR FISCAL YEAR ENDED MARCH 31, 2006

time. The Net Assets of the Township are \$690,727 at March 31, 2006, meaning the Township's assets were greater than its liabilities by this amount.

Lincoln Township
Net Assets as of March 31, 2006

	Governmental Activities
Assets	
Current Assets	\$ 413,135
Non Current Assets	
Capital Assets	\$ 537,645
Less: Accumulated Depreciation	(252,955)
Total Non Current Assets	284,690
Total Assets	\$ 697,825
Liabilities	
Current Liabilities	\$ 7,098
Net Assets	
Invested in Capital Assets	\$ 284,690
Restricted for Specific Purposes	123,002
Unrestricted	283,035
Total Net Assets	\$ 690,727

The most significant portions of the Township's Net Assets are cash and investment in capital assets (e.g. land, buildings, equipment, infrastructure, and others) less any related debt that is outstanding that the Township used to acquire the asset. The Township has \$283,035 in unrestricted Net Assets. These assets represent resources that are available for appropriation, but are limited by Township policies regarding their use.

At the end of the current fiscal year, the Township is able to report positive balances in all categories of net assets for the government as a whole, as well as for its separate governmental activities.

The total net assets of the Township increased by \$90,318 in this fiscal year, which is an indicator that the Township experienced positive financial growth during the year. As a result, the Township ended the fiscal year in better condition than when the year began.

The following table illustrates and summarizes the results of the changes in the net assets for the Township. The condensed information was derived from the government-wide Statement of Activities.

LINCOLN TOWNSHIP, OSCEOLA COUNTY
REED CITY, MICHIGAN

MANAGEMENT'S DISCUSSION AND ANALYSIS

FOR FISCAL YEAR ENDED MARCH 31, 2006

Lincoln Township
Changes in Net Assets
for the Fiscal Year Ended March 31, 2006

	Governmental Activities
<u>Revenues</u>	
Program Revenues	
Charges for Services	\$ 13,135
Capital Grants and Contributions	5,500
General Revenues	
Property Taxes and Assessments	100,257
State Shared Revenue	121,179
Unrestricted Investment Earnings	12,067
Gain on Sale of Capital Assets	4,378
Other	1,249
Total Revenues	<u>\$ 257,765</u>
<u>Expenses</u>	
Legislative	\$ 8,925
General Government	75,266
Public Safety	55,151
Public Works	2,984
Other Functions	25,121
Total Expenses	<u>\$ 167,447</u>
Changes in Net Assets	\$ 90,318
NET ASSETS - Beginning of Year	<u>600,409</u>
NET ASSETS - End of Year	<u><u>\$ 690,727</u></u>

Governmental Activities

During the fiscal year ended March 31, 2006, the Township's net assets increased by \$90,318 in the governmental funds. The majority of this increase represents the degree to which increases in ongoing revenues have outstripped similar increases in ongoing expenses. This is true despite the fact that GASB 34 now requires the Township to maintain a record of annual depreciation expense and the accumulation of depreciation expense over time. The net increase in accumulated depreciation expense is a reduction in net assets.

LINCOLN TOWNSHIP, OSCEOLA COUNTY
REED CITY, MICHIGAN

MANAGEMENT'S DISCUSSION AND ANALYSIS

FOR FISCAL YEAR ENDED MARCH 31, 2006

The most significant portion of the revenue for all governmental activities of Lincoln Township comes from state shared revenues of \$121,179. The Township levied 0.9990 mills for operating purposes and 0.9990 mills for road construction which raised revenues of \$88,888.

State shared revenue is collected by the State of Michigan and distributed to local governments by formula allocation of portions of the State sales tax. In fiscal year 2006, the amount of state shared revenue received by the Township trended downward, representing declining sales tax collections and discretionary reductions by the State in revenue sharing payments.

The Township's governmental activities expenses are dominated by General Government expenses that total 44.95% of total expenses. The Township spent \$75,266 in fiscal year 2006 on General Government expenses. Public Safety represented the next largest expense at \$55,151, or 32.94% of total expenses.

Financial Analysis of the Government's Funds

Governmental Funds The focus of Lincoln Township's governmental funds is to provide information on near-term inflows, outflows, and balances of spendable resources. Such information is useful in assessing the Township's financing requirement. In particular, unreserved fund balance may serve as a useful measure of a government's net resources available for spending at the end of the fiscal year.

At the end of the current fiscal year, Lincoln Township's governmental funds reported combined ending fund balances of \$406,037. Approximately 68.52%, or \$278,200 constitutes unreserved fund balance. The remainder of the fund balance is reserved for specific purposes and is therefore not available for new appropriation. For example, the fund balance that is reserved for road maintenance must be used for expenditures that relate to road maintenance and construction.

General Fund – The General Fund fund balance decreased by \$54,057 which brings the fund balance to \$290,769. \$278,200 of the General Fund's fund balance is unreserved. General Fund Public Safety expenditures of \$149,766 exceeded the budget of \$47,840. This budget overage was funded from fund balance and larger-than-expected revenues.

Road Fund – The Road Fund fund balance decreased by \$50,835 which brings the fund balance to \$115,268. This balance is reserved and must be used for road maintenance. The entire Road Fund expenditures of \$93,707 exceeded the budget because no expenditures were budgeted.

Capital Assets and Debt Administration

Capital Assets. The Township's investment in capital assets for governmental activities as of March 31, 2006 amounted to \$284,690 net of accumulated depreciation. The Township's investment in capital assets increased \$195,210, net of depreciation, for the current fiscal year.

Capital assets summarized below include any items purchased with a cost greater than \$300 individually and that have a useful life greater than one year. A summary of capital asset categories is illustrated below:

LINCOLN TOWNSHIP, OSCEOLA COUNTY
REED CITY, MICHIGAN

MANAGEMENT'S DISCUSSION AND ANALYSIS

FOR FISCAL YEAR ENDED MARCH 31, 2006

Lincoln Township
Capital Assets as of March 31, 2006

	Governmental Activities
Land and Land Improvements	\$ 43,422
Buildings	81,250
Furniture and Equipment	412,973
	<hr/> 537,645
Less Accumulated Depreciation	252,955
	<hr/>
Net Capital Assets	\$ 284,690
	<hr/> <hr/>

The Township purchased two fire trucks at a cost of \$109,300 and paid \$93,707 for its share of road paving projects in the current fiscal year.

Long-Term Debt. Lincoln Township has no obligation for any long-term debt as of March 31, 2006.

Economic Condition and Outlook

The unemployment rate is still high in the State of Michigan and the State's shortfall in the budget may mean reductions in state-shared revenues. State-shared revenues are expected to remain the same in the 2006-07 fiscal year.

A road millage was levied again for the 2006 tax roll. The millage to be levied for the 2006 tax roll for road maintenance is 0.9990 for road maintenance operations.

These factors were considered in preparing the Township's budgets for the 2006-07 fiscal year.

Request for Information

The financial report is designed to provide our citizens, customers, investors and creditors with a general overview of the Township's finances and to demonstrate the Township's accountability for the money it receives. If you have any questions about this report or need any additional information, contact Lincoln Township at 6094 210th Avenue, Reed City, MI 49677.

LINCOLN TOWNSHIP, OSCEOLA COUNTY

REED CITY, MICHIGAN

STATEMENT OF NET ASSETS

MARCH 31, 2006

	<u>GOVERNMENTAL ACTIVITIES</u>
<u>ASSETS</u>	
<u>CURRENT ASSETS</u>	
Cash	\$ 356,230
Receivable	
Taxes	9,889
Accounts	14,532
External Parties (Fiduciary Fund)	6
Due from Other Governments	27,643
Prepaid Expenses	4,835
	<hr/>
Total Current Assets	\$ 413,135
<u>CAPITAL ASSETS</u>	
Land	\$ 3,500
Buildings	81,250
Land Improvements	39,922
Infrastructure	93,707
Vehicles	299,086
Furniture and Equipment	20,180
	<hr/>
	\$ 537,645
Less Accumulated Depreciation	252,955
Net Capital Assets	<hr/>
	\$ 284,690
 TOTAL ASSETS	 <hr/>
	\$ 697,825
<u>LIABILITIES</u>	
<u>CURRENT LIABILITIES</u>	
Payables	
Accounts	\$ 5,959
External Parties (Fiduciary Fund)	58
Payroll Taxes and Withholdings	1,081
	<hr/>
Total Current Liabilities	\$ 7,098
<u>NET ASSETS</u>	
Invested in Capital Assets	\$ 284,690
Restricted for:	
Road Maintenance	115,268
Telecommunications Right of Way Maintenance	7,734
Unrestricted	283,035
	<hr/>
TOTAL NET ASSETS	<hr/>
	\$ 690,727

The accompanying notes are an integral part of the financial statements.

LINCOLN TOWNSHIP, OSCEOLA COUNTY
REED CITY, MICHIGAN

STATEMENT OF ACTIVITIES
YEAR ENDED MARCH 31, 2006

					NET (EXPENSES) REVENUES AND CHANGE IN NET ASSETS TOTAL GOVERNMENTAL ACTIVITIES
FUNCTIONS/PROGRAMS	EXPENSES	PROGRAM REVENUES			
		CHARGES FOR SERVICES	OPERATING GRANTS AND CONTRIBUTIONS	CAPITAL GRANTS AND CONTRIBUTIONS	
<u>PRIMARY GOVERNMENT GOVERNMENTAL ACTIVITIES</u>					
Legislative	\$ 8,925	\$ 0	\$ 0	\$ 0	\$ (8,925)
General Government	75,266	13,135	0	5,500	(56,631)
Public Safety	49,856	0	0	0	(49,856)
Public Works	8,279	0	0	0	(8,279)
Other Functions	25,121	0	0	0	(25,121)
Total Governmental Activities	<u>\$ 167,447</u>	<u>\$ 13,135</u>	<u>\$ 0</u>	<u>\$ 5,500</u>	<u>(148,812)</u>
<u>GENERAL REVENUES</u>					
Taxes					\$ 100,257
State Shared Revenue					121,179
Unrestricted Investment Earnings					12,067
Gain on Sale of Capital Assets					4,378
Other					1,249
Total General Revenues					<u>\$ 239,130</u>
Change in Net Assets					\$ 90,318
<u>NET ASSETS</u> - Beginning of Year					<u>600,409</u>
<u>NET ASSETS</u> - End of Year					<u>\$ 690,727</u>

The accompanying notes are an integral part of the financial statements.

LINCOLN TOWNSHIP, OSCEOLA COUNTY

REED CITY, MICHIGAN

GOVERNMENTAL FUNDS

BALANCE SHEET

MARCH 31, 2006

	GENERAL FUND	ROAD FUND	TOTALS
<u>ASSETS</u>			
Cash	\$ 243,324	\$ 112,906	\$ 356,230
Taxes Receivable	5,530	4,359	9,889
Accounts Receivable	14,532	0	14,532
Due from Other Governments	27,643	0	27,643
Due from Other Funds	2,003	0	2,003
Prepaid Expenditures	4,835	0	4,835
Total Assets	<u>\$ 297,867</u>	<u>\$ 117,265</u>	<u>\$ 415,132</u>
 <u>LIABILITIES AND FUND BALANCE</u>			
<u>LIABILITIES</u>			
Accounts Payable	\$ 5,959	\$ 0	\$ 5,959
Payroll Taxes and Withholdings	1,081	0	1,081
Due to Other Funds	58	1,997	2,055
Total Liabilities	<u>\$ 7,098</u>	<u>\$ 1,997</u>	<u>\$ 9,095</u>
 <u>FUND BALANCE</u>			
Reserved for:			
Road Maintenance	\$ 0	\$ 115,268	\$ 115,268
Prepaid Expenditures	4,835	0	4,835
Telecommunications Right of Way Maintenance	7,734	0	7,734
Unreserved			
Undesignated	278,200	0	278,200
Total Fund Balance	<u>\$ 290,769</u>	<u>\$ 115,268</u>	<u>\$ 406,037</u>
 TOTAL LIABILITIES AND FUND BALANCE	 <u>\$ 297,867</u>	 <u>\$ 117,265</u>	 <u>\$ 415,132</u>

The accompanying notes are an integral part of the financial statements.

LINCOLN TOWNSHIP, OSCEOLA COUNTY
REED CITY, MICHIGAN

GOVERNMENTAL FUNDS

RECONCILIATION OF THE BALANCE SHEET TO THE STATEMENT OF NET ASSETS
MARCH 31, 2006

Total Fund Balances for Governmental Funds	\$ 406,037
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Amounts Reported for Governmental Activities in the
Statement of Net Assets are Different Because:

Capital assets used in governmental activities are not
financial resources and therefore are not reported in the funds.

Land	\$ 3,500	
Buildings	81,250	
Land Improvements	39,922	
Infrastructure	93,707	
Vehicles	299,086	
Furniture and Equipment	20,180	
Accumulated Depreciation	<u>(252,955)</u>	<u>284,690</u>

NET ASSETS OF GOVERNMENTAL ACTIVITIES	<u><u>\$ 690,727</u></u>
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The accompanying notes are an integral part of the financial statements.

LINCOLN TOWNSHIP, OSCEOLA COUNTY

REED CITY, MICHIGAN

GOVERNMENTAL FUNDS

STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCE

YEAR ENDED MARCH 31, 2006

	GENERAL FUND	ROAD FUND	TOTALS
<u>REVENUES</u>			
Taxes	\$ 57,803	\$ 42,454	\$ 100,257
State Grants	126,679	0	126,679
Charges for Services	13,135	0	13,135
Interest and Rents	11,649	418	12,067
Other Revenues	5,627	0	5,627
Total Revenues	\$ 214,893	\$ 42,872	\$ 257,765
<u>EXPENDITURES</u>			
Legislative	\$ 8,925	\$ 0	\$ 8,925
General Government	79,315	0	79,315
Public Safety	149,766	0	149,766
Public Works	5,823	93,707	99,530
Other Functions	25,121	0	25,121
Total Expenditures	\$ 268,950	\$ 93,707	\$ 362,657
Net Change in Fund Balance	\$ (54,057)	\$ (50,835)	\$ (104,892)
<u>FUND BALANCE</u> - Beginning of Year	344,826	166,103	510,929
<u>FUND BALANCE</u> - End of Year	\$ 290,769	\$ 115,268	\$ 406,037

The accompanying notes are an integral part of the financial statements.

LINCOLN TOWNSHIP, OSCEOLA COUNTY
REED CITY, MICHIGAN

GOVERNMENTAL FUNDS

RECONCILIATION OF THE STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES
IN FUND BALANCES TO THE STATEMENT OF ACTIVITIES
MARCH 31, 2006

Net change in Fund Balance - Total Governmental Funds	\$ (104,892)
---	--------------

Amounts reported for governmental activities are different because:

Governmental funds report capital outlay as expenditures in the statement of activities. These costs are allocated over their estimated useful lives as depreciation.

Depreciation Expense	(13,297)
Capital Outlay	<u>208,507</u>

CHANGE IN NET ASSETS OF GOVERNMENTAL ACTIVITIES	<u><u>\$ 90,318</u></u>
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The accompanying notes are an integral part of the financial statements.

LINCOLN TOWNSHIP, OSCEOLA COUNTY
REED CITY, MICHIGAN

STATEMENT OF FIDUCIARY ASSETS AND LIABILITIES
MARCH 31, 2006

	<u>AGENCY FUNDS</u>
<u>ASSETS</u>	
Cash	\$ 518
Due from Other Funds	<u> 58</u>
Total Assets	<u><u>\$ 576</u></u>
 <u>LIABILITIES</u>	
Due to Other Funds	\$ 6
Due to Other Governments	<u> 570</u>
Total Liabilities	<u><u>\$ 576</u></u>

The accompanying notes are an integral part of the financial statements.

LINCOLN TOWNSHIP, OSCEOLA COUNTY
REED CITY, MICHIGAN

NOTES TO FINANCIAL STATEMENTS
MARCH 31, 2006

I. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

A. Reporting Entity

Lincoln Township is a general law township located in Osceola County which operates under the direction of an elected township board. Under the criteria established by accounting principles generally accepted in the United States of America, the Township has determined that there are no component units which should be included in its reporting entity.

B. Government-wide and Fund Financial Statements

During fiscal year 2005, the Township adopted GASB Statement No. 34, *Basic Financial Statements - and Management's Discussion and Analysis - for State and Local Governments*, as amended by GASB Statements No. 37 and No. 38, and applied those standards on a retroactive basis. GASB Statement No. 34 establishes standards for external financial reporting for state and local governments and requires that resources be classified for accounting and reporting purposes into the following three net asset categories.

Invested in Capital assets, net of related debt consists of capital assets, net of accumulated depreciation and reduced by outstanding balances for bonds, notes, and other debt that are attributed to the acquisition, construction, or improvement of those assets.

Restricted net assets result when constraints placed on net asset use are either externally imposed by creditors, grantors, and contributions, or imposed by law through constitutional provisions or enabling legislation.

Unrestricted net assets consist of net assets which do not meet the definition of the two preceding categories.

The government-wide financial statements (i.e., the statement of net assets and the statement of changes in net assets) report information on all of the non-fiduciary activities of the government. For the most part, the effect of interfund activity has been removed from these statements.

The statement of activities demonstrates the degree to which the direct expenses of a given function or segment are offset by program revenues. Direct expenses are those that are clearly identifiable with a specific function or segment. Program revenues include 1) charges to customers or applicants who purchase, use, or directly benefit from goods, services, or privileges provided by a given function or segment and 2) grants and contributions that are restricted to meeting the operational or capital requirements of a particular function or segment. Taxes and other items not properly included among program revenues are reported instead as general revenues.

The government-wide focus is more on the sustainability of the Township as an entity and the change in aggregate financial position resulting from the activities of the fiscal period. The fund financial statements are similar to the financial statements presented in the previous financial reporting model.

LINCOLN TOWNSHIP, OSCEOLA COUNTY
REED CITY, MICHIGAN

NOTES TO FINANCIAL STATEMENTS
MARCH 31, 2006

C. Measurement Focus, Basis of Accounting and Basis of Presentation

The government-wide financial statements are reported using the economic resources measurement focus and the accrual basis of accounting, as are the proprietary fund and fiduciary fund financial statements. Revenues are recorded when earned and expenses are recorded when a liability is incurred, regardless of timing of related cash flows. Property taxes are recognized as revenues in the year for which they are levied. Grants and similar items are recognized as revenue as soon as all eligibility requirements imposed by the provider have been met.

Governmental fund financial statements are reported using the current financial resources measurement focus and the modified accrual basis of accounting. Revenues are recognized as soon as they are both measurable and available. Revenues are considered to be available when they are collectible within the current period or soon enough thereafter to pay liabilities of the current period. For this purpose, the government considers revenues to be available if they are collected within 60 days of the end of the current fiscal period. Expenditures generally are recorded when a liability is incurred, as under accrual accounting. However, debt service expenditures, as well as expenditures related to compensated absences and claims and judgments, are recorded only when payment is due.

Property taxes and interest are considered to be susceptible to accrual and so have been recognized as revenues of the current fiscal period. Sales tax collected and held by the state at year end on behalf of the government is also recognized as revenue. All other revenue items are considered to be measurable and available only when cash is received by the government.

Entitlements and shared revenues are recorded at the time of receipt or earlier if the susceptible to accrual criteria are met. Expenditure-driven grants are recognized as revenue when the qualifying expenditures have been incurred and all other grant requirements have been met.

The accounts of the Township are organized on the basis of funds. A fund is an independent fiscal and accounting entity with a self-balancing set of accounts. Fund accounting segregates funds according to their intended purpose and is used to aid management in demonstrating compliance with finance-related legal and contractual provisions. The minimum number of funds are maintained consistent with legal and managerial requirements.

Lincoln Township reports the following major governmental funds:

The *General Fund* is the government's primary operating fund. It accounts for all financial resources of the general government, except those required to be accounted for in another fund.

The *Road Fund* accounts for revenue sources that are legally restricted to expenditure for road maintenance.

Additionally, Lincoln Township reports the following fund types:

LINCOLN TOWNSHIP, OSCEOLA COUNTY
REED CITY, MICHIGAN

NOTES TO FINANCIAL STATEMENTS
MARCH 31, 2006

Agency funds are custodial in nature and do not present results of operations or have a measurement focus. Agency funds are accounted for using the modified accrual basis of accounting. These funds are used to account for assets that the Township holds for others in an agency capacity.

Private-sector standards of accounting and financial reporting issued prior to December 1, 1989, generally are followed in the government-wide financial statements to the extent that those standards do not conflict with or contradict guidance of the Governmental Accounting Standards Board. Governments also have the option of following subsequent private-sector guidance for their business-type activities and enterprise funds, subject to this same limitation. The government has elected not to follow subsequent private-sector guidance.

As a general rule, the effect of interfund activity has been eliminated from the government-wide financial statements. Exceptions to this general rule are payments-in-lieu of taxes and other charges between the other functions of the government. Elimination of these charges would distort the direct costs and program revenues reported for the various functions involved. Amounts reported as program revenues include 1) charges to customers or applicants who purchase, use, or directly benefit from goods, services, or privileges provided, 2) operating grants and contributions, and 3) capital grants and contributions, including special assessments. Internally dedicated resources are reported as general revenues rather than as program revenues. Likewise, general revenues include all taxes.

When both restricted and unrestricted resources are available for use, it is the Township's policy to use the restricted resources first, then unrestricted resources as they are needed.

D. Assets, Liabilities and Equity

1. Deposits and Investments

The Township's cash and cash equivalents are considered to be cash on hand, demand deposits and short-term investments with original maturities of twelve months or less from date of acquisition.

The investment policy adopted by the Township states that the treasurer may invest Township funds in certificates of deposit, but only if the bank, savings and loan association, or credit union meets all criteria as a depository of public funds contained in state law.

2. Receivables and Payables

Transactions between funds that are representative of lending/borrowing arrangements outstanding at the end of the fiscal year are referred to as either "due to/from other funds" (i.e., the current portion of interfund loans) or "advances to/from other funds" (i.e., the non-current portion of interfund loans). All other outstanding balances between funds are reported as "due to/from other funds."

All trade and property tax receivables are shown net of an allowance for uncollectibles. Property taxes attach as an enforceable lien on the property as of the date they are levied. State education taxes and one-third of county taxes are levied and due July 1, and become delinquent after

LINCOLN TOWNSHIP, OSCEOLA COUNTY
REED CITY, MICHIGAN

NOTES TO FINANCIAL STATEMENTS
MARCH 31, 2006

September 14. The remaining millages are levied and due December 1, and become delinquent after February 14. Collections of taxes and remittances of them are accounted for in the Current Tax Collection Fund. Township property tax revenues are recognized when they become both measurable and available for use to finance Township operations. Amounts which are not expected to be collected within sixty days are treated as deferred revenues.

The 2005 taxable valuation of Lincoln Township totaled \$44,495,050, on which ad valorem taxes levied consisted of 0.9990 mills for Lincoln Township operating purposes and 0.9990 mills for road construction. The levy raised approximately \$44,444 for operating purposes and \$44,444 for road construction purposes.

3. *Inventories and Prepaid Items*

Inventories are not significant and are expensed when acquired.

Certain payments to vendors reflect costs applicable to future accounting periods and are recorded as prepaid items.

4. *Capital Assets*

Capital assets, which include property, plant, equipment, and infrastructure assets (e.g., roads, bridges, sidewalks, and similar items), are reported in the applicable columns in the government-wide financial statements. Capital assets are defined by the government as assets with an initial, individual cost of more than \$1,000 (amount not rounded) and an estimated useful life in excess of one year. Such assets are recorded at historical cost or estimated historical cost if purchased or constructed. Donated capital assets are recorded at estimated fair market value at date of donation.

The costs of normal maintenance and repairs that do not add to the value of the asset or materially extend asset lives are not capitalized.

Major outlays for capital assets and improvements are capitalized as projects are constructed.

Property, plant and equipment of the Township are depreciated using the straight line method over the following estimated useful lives:

<u>ASSETS</u>	<u>YEARS</u>
Buildings	50
Land improvements	20
Building improvements	20
Infrastructure	50
Vehicles	10-25
Furniture and Equipment	5-10

Lincoln Township qualifies as a phase 3 governmental unit in regards to the implementation of GASB 34. Phase 3 governmental units are not required to retroactively capitalize infrastructure. As

LINCOLN TOWNSHIP, OSCEOLA COUNTY
REED CITY, MICHIGAN

NOTES TO FINANCIAL STATEMENTS
MARCH 31, 2006

a result, the Township began to capitalize and depreciate infrastructure as of April 1, 2004, in accordance with the Township's capitalization policy.

5. Long-term Obligations

The Township does not have any long-term debt.

6. Fund Equity

In the fund financial statements, governmental funds report reservations of fund balance for amounts that are not available for appropriation or are legally restricted by outside parties for use for a specific purpose. Designations of fund balance represent tentative management plans that are subject to change.

7. Use of Estimates

The presentation of financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

II. STEWARDSHIP, COMPLIANCE AND ACCOUNTABILITY

A. Budgetary Information

The annual budget is adopted on the modified accrual basis in accordance with the requirements of Michigan Public Act 621 of 1978 "The Uniform Budgeting and Accounting Act". A public hearing is held to obtain taxpayer comments. Appropriations lapse at year end. Budget amounts are as originally adopted on March 8, 2005, or as amended by the Township Board from time to time throughout the year.

The appropriated budget is prepared by fund and activity. The Township Board exercises budgetary control over expenditures.

Encumbrance accounting, under which purchase orders, contracts and other commitments for expenditure of monies are recorded in order to reserve that portion of the applicable appropriation, is not employed by the Township because it is, at present, not considered necessary to assure effective budgetary control or to facilitate effective cash planning and control.

B. Funds with expenditures in excess of appropriations were as follows:

	<u>APPROPRIATIONS</u>		<u>EXPENDITURES</u>
General Fund			
Public Safety	\$ 47,840	\$	149,766
Road Fund			
Public Works	0		93,707

LINCOLN TOWNSHIP, OSCEOLA COUNTY
REED CITY, MICHIGAN

NOTES TO FINANCIAL STATEMENTS
MARCH 31, 2006

These overages were funded by greater than anticipated revenues and available fund balance.

III. DETAILED NOTES ON ALL FUNDS

A. Deposits and Investments

The Township's deposits are owned by the Township's funds. Bank deposits are in Chemical Bank and Huntington National Bank.

Investment rate risk. The Township will minimize Interest Rate Risk, which is the risk that the market value of securities in the portfolio will fall due to changes in market interest rates, by; structuring the investment portfolio so that securities mature to meet cash requirements for ongoing operations, thereby avoiding the need to sell securities in the open market; and investing operating funds primarily in certificates of deposit limiting the average maturity in accordance with the Township's cash requirements.

Foreign currency risk. The Township is not authorized to invest in investments, which have this type of risk.

Credit risk. The Township will minimize Custodial Credit Risk, which is the risk of loss due to failure of the issuer or backer by limiting investments to certificates of deposit.

Custodial credit risk – deposits. In the case of deposits, this is the risk that in the event of a bank failure, the government's deposits may not be returned to it. As of March 31, 2006, \$86,650 of the government's bank balance of \$358,075 was exposed to custodial credit risk because it was uninsured and uncollateralized.

B. Receivables

Receivables as of year end for the government's individual major funds are as follows:

	General	Road	Total
Receivables			
Taxes	\$ 5,530	\$ 4,359	\$ 9,889
Accounts	14,532	0	14,532
External Parties	6	0	6
Due from Other Governments	27,643	0	27,643
	<u>\$ 47,711</u>	<u>\$ 4,359</u>	<u>\$ 52,070</u>

The allowance for doubtful accounts is not considered to be material for disclosure. As a result, its uncollectible accounts are virtually nil.

Governmental funds report deferred revenue in connection with receivables for revenues that are not considered to be available to liquidate liabilities of the current period. Governmental funds also defer revenue recognition in connection with resources that have been received, but not yet earned.

LINCOLN TOWNSHIP, OSCEOLA COUNTY
REED CITY, MICHIGAN

NOTES TO FINANCIAL STATEMENTS
MARCH 31, 2006

C. Capital Assets

Primary Government

	Beginning Balance	Increases	Decreases	Ending Balance
<u>Governmental activities:</u>				
Capital assets, not being depreciated				
Land	\$ 3,500	\$ 0	\$ 0	\$ 3,500
Capital assets, being depreciated				
Buildings	\$ 81,250	\$ 0	\$ 0	\$ 81,250
Land Improvements	39,922	0	0	39,922
Infrastructure	0	93,707	0	93,707
Vehicles	294,786	109,300	105,000	299,086
Furniture and Equipment	14,680	5,500	0	20,180
Total capital assets, being depreciated	\$ 430,638	\$ 208,507	\$ 105,000	\$ 534,145
Less accumulated depreciation for:				
Buildings	\$ 52,315	\$ 1,772	\$ 0	\$ 54,087
Infrastructure	0	2,456	0	2,456
Land Improvements	473	946	0	1,419
Vehicles	287,349	6,517	105,000	188,866
Furniture and Equipment	4,521	1,606	0	6,127
Total accumulated depreciation	\$ 344,658	\$ 13,297	\$ 105,000	\$ 252,955
Total capital assets, being depreciated, net	\$ 85,980	\$ 195,210	\$ 0	\$ 281,190
Governmental activities capital assets, net	\$ 89,480	\$ 195,210	\$ 0	\$ 284,690

Depreciation expense was charged to functions/programs of the primary government as follows:

Governmental activities:

General Government	\$ 1,451
Public Safety	9,390
Public Works	2,456

Construction Commitments:

The government has construction commitments for road work of \$48,212 as of March 31, 2006.

LINCOLN TOWNSHIP, OSCEOLA COUNTY
REED CITY, MICHIGAN

NOTES TO FINANCIAL STATEMENTS
MARCH 31, 2006

D. Interfund Receivables, Payables and Transfers

Individual fund interfund receivable and payable balances at March 31, 2006, were:

<u>Fund</u>	INTERFUND RECEIVABLES DUE FROM'S	INTERFUND PAYABLES DUE TO'S
General Fund	\$ 2,003	\$ 58
Special Revenue Funds		
Road Fund	0	1,997
Fiduciary Funds		
Current Tax Collection Fund	58	6
	<u>\$ 2,061</u>	<u>\$ 2,061</u>

All remaining balances resulted from the time lag between the dates that (1) interfund goods and services are provided or reimbursable expenditures occur, (2) transactions are recorded in the accounting system, and (3) payments between funds are made. All are expected to be resolved within one year.

As of March 31, 2006, there were no Interfund Transfers.

E. Fund Balance Reserves

In order to comply with generally accepted accounting principles and meet certain legal requirements, the Township has reserved fund balances in various funds. These reserves are detailed in the following schedule:

FUND BALANCE/NET ASSETS

Reserved

General Fund

Prepaid Expenditures	\$ 4,835	
Telecommunications Right-of-Way Maintenance	<u>7,734</u>	\$ 12,569

Special Revenue Funds

 Road Fund

Road Maintenance		<u>115,268</u>
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Total Fund Balance Reserves		<u>\$ 127,837</u>
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LINCOLN TOWNSHIP, OSCEOLA COUNTY
REED CITY, MICHIGAN

NOTES TO FINANCIAL STATEMENTS
MARCH 31, 2006

IV. OTHER INFORMATION

A. Risk Management

The Township is exposed to various risks of loss related to torts; theft of, damage to, and destruction of assets; errors and omissions; and natural disasters. The Township participates in a pool of municipalities within the State of Michigan for self-insuring property and casualty, crime, general liability, workers compensation insurance and errors and omissions insurance. The Township pays annual premiums to the pool for the respective insurance coverage. In the event the pool's total claims and expenses for a policy year exceed the total normal annual premiums for said years, all members of the specific pool's policy year may be subject to special assessments to make up the deficiency. The Township has not been informed of any special assessments being required for the current year or the three prior years.

The Township continues to carry insurance for other risks of loss, including fidelity bonds.

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LINCOLN TOWNSHIP, OSCEOLA COUNTY
REED CITY, MICHIGAN
REQUIRED SUPPLEMENTARY INFORMATION
BUDGETARY COMPARISON SCHEDULE
MAJOR GOVERNMENTAL FUNDS

YEAR ENDED MARCH 31, 2006

	GENERAL FUND				ROAD FUND			
	ORIGINAL BUDGET	FINAL BUDGET	ACTUAL	VARIANCE WITH FINAL BUDGET	ORIGINAL BUDGET	FINAL BUDGET	ACTUAL	VARIANCE WITH FINAL BUDGET
<u>REVENUES</u>								
Taxes	\$ 55,000	\$ 60,500	\$ 57,803	\$ (2,697)	\$ 43,500	\$ 43,500	\$ 42,454	\$ (1,046)
State Grants	115,000	115,000	126,679	11,679	0	0	0	0
Charges for Services	12,300	13,200	13,135	(65)	0	0	0	0
Interest and Rents	7,200	11,000	11,649	649	0	0	418	418
Other Revenues	0	0	5,627	5,627	0	0	0	0
Total Revenues	189,500	199,700	214,893	15,193	43,500	43,500	42,872	(628)
<u>EXPENDITURES</u>								
Legislative	8,900	8,925	8,925	0	0	0	0	0
General Government	86,180	91,535	79,315	12,220	0	0	0	0
Public Safety	51,820	47,840	149,766	(101,926)	0	0	0	0
Public Works	7,000	6,100	5,823	277	0	0	93,707	(93,707)
Recreation and Cultural	2,600	2,600	0	2,600	0	0	0	0
Other Functions	33,000	32,500	25,121	7,379	0	0	0	0
Total Expenditures	189,500	189,500	268,950	(79,450)	0	0	93,707	(93,707)
Net Change in Fund Balance	0	10,200	(54,057)	(64,257)	43,500	43,500	(50,835)	(94,335)
<u>FUND BALANCE</u> - Beginning of Year	0	0	344,826	344,826	0	0	166,103	166,103
<u>FUND BALANCE</u> - End of Year	\$ 0	\$ 10,200	\$ 290,769	\$ 280,569	\$ 43,500	\$ 43,500	\$ 115,268	\$ 71,768

LINCOLN TOWNSHIP, OSCEOLA COUNTY
REED CITY, MICHIGAN

GENERAL FUND

BALANCE SHEET
MARCH 31, 2006

ASSETS

Cash	
Commercial Account	\$ 139,055
Savings Account	104,269
Taxes Receivable	5,530
Accounts Receivable	14,532
Due from Other Governments	27,643
Due from Road Fund	1,997
Due from Current Tax Collection fund	6
Prepaid Expenditures	<u>4,835</u>
 TOTAL ASSETS	 <u><u>\$ 297,867</u></u>

LIABILITIES AND FUND BALANCE

LIABILITIES

Accounts Payable	\$ 5,959
Payroll Withholdings	1,081
Due to Current Tax Collection Fund	<u>58</u>
 Total Liabilities	 <u>\$ 7,098</u>

FUND BALANCE

Reserved for:	
Prepaid Expenditures	\$ 4,835
Telecommunications Right-of-Way Maintenance	7,734
Unreserved	<u>278,200</u>
 Total Fund Balance	 <u>\$ 290,769</u>

TOTAL LIABILITIES AND FUND BALANCE	<u><u>\$ 297,867</u></u>
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LINCOLN TOWNSHIP, OSCEOLA COUNTY
REED CITY, MICHIGAN

GENERAL FUND
SCHEDULE OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCE

BUDGET AND ACTUAL
FOR THE YEAR ENDED MARCH 31, 2006

	<u>BUDGET</u>		<u>2006</u>
	<u>ORIGINAL</u>	<u>FINAL</u>	<u>ACTUAL</u>
<u>REVENUES</u>			
Taxes	\$ 55,000	\$ 60,500	\$ 57,803
State Grants	115,000	115,000	126,679
Charges for Services	12,300	13,200	13,135
Interest and Rents	7,200	11,000	11,649
Other Revenues	0	0	5,627
Total Revenues	\$ 189,500	\$ 199,700	\$ 214,893
<u>EXPENDITURES</u>			
Legislative			
Township Board	\$ 8,900	\$ 8,925	\$ 8,925
General Government			
Supervisor	8,400	8,460	8,344
Clerk	12,300	11,650	9,401
Board of Review	1,950	1,900	1,741
Treasurer	17,475	18,535	16,711
Assessor	17,100	17,310	14,997
Elections	3,955	3,970	6,439
Building and Grounds	15,650	19,685	14,225
Cemetery	9,350	10,025	7,457
Public Safety			
Fire Department	51,820	47,840	149,766
Public Works			
Refuse Collection	6,500	5,600	5,295
Street Lighting	500	500	528
Recreation and Culture	2,600	2,600	0
Other Functions	33,000	32,500	25,121
Total Expenditures	\$ 189,500	\$ 189,500	\$ 268,950
Excess (Deficiency) of Revenues Over Expenditures	\$ 0	\$ 10,200	\$ (54,057)
<u>FUND BALANCE</u> - Beginning of Year	0	0	344,826
<u>FUND BALANCE</u> - End of Year	\$ 0	\$ 10,200	\$ 290,769

LINCOLN TOWNSHIP, OSCEOLA COUNTY
REED CITY, MICHIGAN

ROAD FUND

BALANCE SHEET
MARCH 31, 2006

ASSETS

Cash	
Savings Account	\$ 112,906
Taxes Receivable	<u>4,359</u>
TOTAL ASSETS	<u>\$ 117,265</u>

LIABILITIES AND FUND BALANCE

Liabilities

Due to General Fund	\$ 1,997
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Fund Balance

Reserved for Road Maintenance	<u>115,268</u>
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TOTAL LIABILITIES AND FUND BALANCE	<u>\$ 117,265</u>
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LINCOLN TOWNSHIP, OSCEOLA COUNTY
REED CITY, MICHIGAN

ROAD FUND

SCHEDULE OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCE

FOR THE YEAR ENDED MARCH 31, 2006

	<u>BUDGET</u>		<u>2006</u>
	<u>ORIGINAL</u>	<u>FINAL</u>	<u>ACTUAL</u>
<u>REVENUES</u>			
Taxes	\$ 43,500	\$ 43,500	\$ 42,454
Interest Earnings	0	0	418
Total Revenues	\$ 43,500	\$ 43,500	\$ 42,872
<u>EXPENDITURES</u>			
Public Works			
Highways, Streets and Bridges			
Other Services and Charges			
Contracted Services	0	0	93,707
Excess (Deficiency) of Revenues			
Over Expenditures	\$ 43,500	\$ 43,500	\$ (50,835)
<u>FUND BALANCE</u> - Beginning of Year	0	0	166,103
<u>FUND BALANCE</u> - End of Year	\$ 43,500	\$ 43,500	\$ 115,268

LINCOLN TOWNSHIP, OSCEOLA COUNTY
REED CITY, MICHIGAN

CURRENT TAX COLLECTION FUND

STATEMENT OF CHANGES IN ASSETS AND LIABILITIES
YEAR ENDED MARCH 31, 2006

	BALANCE			BALANCE
	4/1/2005	ADDITIONS	DEDUCTIONS	3/31/2006
<u>CURRENT TAX COLLECTION FUND</u>				
<u>ASSETS</u>				
Cash	\$ 1,564	\$ 1,483,832	\$ 1,484,878	\$ 518
Due from Other Funds	0	58	0	58
Total Assets	\$ 1,564	\$ 1,483,890	\$ 1,484,878	\$ 576
<u>LIABILITIES</u>				
Due to Other Funds	\$ 96	\$ 108,191	\$ 108,281	\$ 6
Due to Individuals	0	1,884	1,884	0
Due to Other Governments	1,468	1,373,815	1,374,713	570
Total Liabilities	\$ 1,564	\$ 1,483,890	\$ 1,484,878	\$ 576

LINCOLN TOWNSHIP, OSCEOLA COUNTY
REED CITY, MICHIGAN

STATEMENT OF 2005 TAX ROLL
MARCH 31, 2006

<u>TAXES ASSESSED</u>	<u>TAXABLE VALUE</u>	<u>MILLS</u>	<u>LEVY</u>	<u>COLLECTIONS</u>	<u>RETURNED DELINQUENT</u>
County					
Summer Operating	\$ 44,448,833	2.1345	\$ 94,870	\$ 89,820	\$ 5,050
Winter Operating	44,495,050	4.2690	190,042	170,896	19,146
Commission on Aging	44,495,050	0.7925	35,256	31,721	3,535
Voted Road Patrol	44,495,050	0.9984	44,417	39,963	4,454
Voted EMS	44,495,050	0.9907	44,075	39,655	4,420
State Education Tax	44,448,833	6.0000	266,688	252,493	14,195
Township					
Operating	44,495,050	0.9990	44,444	39,988	4,456
Roads	44,495,050	0.9990	44,444	39,988	4,456
Tax Administration Fee			15,684	14,505	1,179
School Operating					
Pine River Area Schools	4,967,372	18.0000	89,411	75,145	14,266
Reed City Public Schools	19,209,745	18.0000	345,775	338,805	6,970
School Debt					
Pine River Area Schools	12,558,400	3.0000	37,672	30,952	6,720
Reed City Public Schools	31,936,650	4.0100	128,063	119,154	8,909
Intermediate Schools					
Wexford-Missaukee	12,558,400	5.9610	74,863	61,508	13,355
Mecosta-Osceola	31,936,650	4.0870	130,535	121,454	9,081
Totals			<u>\$ 1,586,239</u>	<u>\$ 1,466,047</u>	<u>\$ 120,192</u>

LINCOLN TOWNSHIP, OSCEOLA COUNTY
REED CITY, MICHIGAN

STATEMENT OF 2005 INDUSTRIAL FACILITIES TAX ROLL
MARCH 31, 2006

<u>TAXES ASSESSED</u>	<u>TAXABLE</u> <u>VALUE</u>	<u>MILLS</u>	<u>LEVY</u>	<u>COLLECTIONS</u>	<u>RETURNED</u> <u>DELINQUENT</u>
County					
Summer Operating	\$ 80,750	1.0672	\$ 86	\$ 86	\$ 0
Winter Operating	80,750	2.1345	172	0	172
Commission on Aging	80,750	0.3962	32	0	32
Voted Road Patrol	80,750	0.4992	40	0	40
Voted EMS	80,750	0.4953	40	0	40
State Education Tax	80,750	6.0000	485	485	0
Township					
Operating	80,750	0.4995	40	0	40
Roads	80,750	0.4995	40	0	40
Tax Administration Fee			20	6	14
School Operating					
Pine River Area Schools	80,750	9.0000	727	0	727
School Debt					
Pine River Area Schools	80,750	1.5000	121	0	121
Intermediate Schools					
Wexford-Missaukee	80,750	2.9807	241	0	241
Totals			\$ 2,044	\$ 577	\$ 1,467

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1902 - 1990
JACK H. BAIRD, C.P.A.
JERRY L. COTTER, C.P.A.
DALE D. COTTER, C.P.A.

JOHN H. BISHOP, C.P.A.
ROBERT V. BEATTIE, C.P.A.
DOUGLAS P. McMULLEN, C.P.A.
JOHN F. TAYLOR, C.P.A.
STEVEN C. ARENDS, C.P.A.
SCOTT A. HUNTER, C.P.A.
JONATHAN E. DAMHOF, C.P.A.
MICHAEL D. COOL, C.P.A.

Baird, Cotter and Bishop, P.C.

CERTIFIED PUBLIC ACCOUNTANTS

May 17, 2006

LETTER OF COMMENTS AND RECOMMENDATIONS

To the Township Board
Lincoln Township
Osceola County
Reed City, Michigan

As a result of our audit of the basic financial statements of Lincoln Township for the year ended March 31, 2006, we would like to note the following:

Budgeting

No budget was adopted for Road Fund expenditures.

This is a repeat of an audit finding from the March 31, 2004 audit. We are available to assist you in correcting the format of your budgets or to review their format before they are adopted.

The General Fund budget was not amended to provide for the entire cost of the new fire trucks. As a result, Public Safety expenditures exceeded the budget by \$101,621.

No beginning or ending fund balances were included in the General Fund budget.

Condition of Records

We found the accounting records to be in very good order. Bank accounts were reconciled and records were filed in an orderly manner so that they could be retrieved for audit testing. In addition, we found that the board meeting minutes were very well written and contained details of all of the financial activity of the Township that should be included in the minutes. We would like to commend the clerk and treasurer for the fine job they did.

Telecommunications Right of Way Revenues

The state restricts the use of these monies to specific items, such as road construction and street lighting. As a result \$7,733.87 of the General Fund fund balance is reserved. We recommend that this money and all future revenues be put in the Road Fund for use on future construction projects.

We would like to thank the board for its confidence in our firm and to thank the township officers for their cooperation.

If you have any questions relative to the above comments and recommendations or other areas of your annual accounting, please feel free to call on us.

BAIRD, COTTER AND BISHOP, P.C.

Baird, Cotter & Bishop, P.C.

Baird, Cotter and Bishop, P.C.

CERTIFIED PUBLIC ACCOUNTANTS

May 17, 2006

LETTER OF REPORTABLE CONDITIONS

To the Township Board
Lincoln Township
Osceola County
Reed City, Michigan

In planning and performing our audit of the basic financial statements of Lincoln Township, Osceola County, Reed City, Michigan for the year ended March 31, 2006, we considered its internal control structure in order to determine our auditing procedures for the purpose of expressing our opinion on the basic financial statements and not to provide assurance on the internal control structure. However, we noted certain matters that we consider to be reportable conditions under standards established by the American Institute of Certified Public Accountants. Reportable conditions involve matters coming to our attention relating to significant deficiencies in the design or operation of the internal control structure that, in our judgment, could adversely affect the organization's ability to record, process, summarize, and report financial data consistent with the assertions of management in the basic financial statements.

The relatively small number of people involved in the accounting functions of the Township and the design of the accounting system as developed by the state make it difficult to adequately segregate duties. Segregation of accounting duties is a fundamental method of strengthening internal control. However, in deciding what internal control procedures should be implemented, the Board must consider the costs of implementing them and weigh those costs against the benefits to be derived from their implementation.

A material weakness is a reportable condition in which the design or operation of one or more of the internal control structure elements does not reduce to a relatively low level the risk that errors or irregularities in amounts that would be material to the basic financial statements being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions.

Our consideration of the internal control structure would not necessarily disclose all matters in the internal control structure that might be reportable conditions and, accordingly, would not necessarily disclose all reportable conditions that are also considered to be material weaknesses as defined above. However, we believe that the condition described above is a material weakness.

This report is intended solely for the information and use of the Board and others within the organization. This restriction is not intended to limit the distribution of the report, which is a matter of public record.

BAIRD, COTTER AND BISHOP, P.C.

Baird, Cotter & Bishop, P.C.